

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;  
Michael Kubayanda, Vice Chairman;  
Mark Acton;  
Ann C. Fisher; and  
Ashley E. Poling

Periodic Reporting  
(Proposal Three)

Docket No. RM2020-10

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING  
(PROPOSAL THREE)

(Issued September 25, 2020)

I. INTRODUCTION

On June 11, 2020, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11 requesting that the Commission initiate a rulemaking proceeding to consider changes to the analytical methods approved for use in periodic reporting.<sup>1</sup> Proposal Three seeks to change the In-Office Cost System (IOCS) methodology for sampling city carriers. Petition at 1. The Postal Service believes the proposed IOCS-Cluster sampling systems are more accurate than the comparable cost estimates for carriers derived from the current IOCS sampling methodology. Petition, Proposal Three at 10.

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<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Three), June 11, 2020, at 1 (Petition). Proposal Three is attached to the Petition.

In support of Proposal Three, the Postal Service also filed a public and a non-public library reference.<sup>2</sup>

For the reasons discussed below, the Commission approves Proposal Three.

## II. PROCEDURAL HISTORY

On June 15, 2020, the Commission issued a notice initiating this proceeding, soliciting public comment, and appointing a Public Representative.<sup>3</sup> On June 18, 2020, Chairman's Information Request No. 1 was issued.<sup>4</sup> On June 26, 2020, the Postal Service provided its responses to CHIR No. 1.<sup>5</sup> The Postal Service filed an additional non-public library reference along with its Response to CHIR No. 1.<sup>6</sup> On July 28, 2020, United Parcel Service, Inc. (UPS) filed a motion for issuance of information request to the United States Postal Service.<sup>7</sup> Also on July 28, 2020, UPS filed a motion requesting access to non-public materials under protective conditions.<sup>8</sup>

Chairman's Information Request No. 2 was issued on August 3, 2020.<sup>9</sup> On August 6, 2020, UPS filed a motion for extension to file comments.<sup>10</sup> On August 6, 2020, the Commission issued Order No. 5621 granting motion for access to non-public

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<sup>2</sup> See Notice of Filing of USPS-RM2020-10-1 and USPS-RM2020-10-NP1 and Application for Nonpublic Treatment, June 11, 2020.

<sup>3</sup> Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Three), June 15, 2020 (Order No. 5548).

<sup>4</sup> Chairman's Information Request No. 1, June 18, 2020 (CHIR No.1).

<sup>5</sup> Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 1, June 26, 2020 (Response to CHIR No. 1).

<sup>6</sup> See Notice of Filing of USPS-RM2020-1/NP2 and Application for Nonpublic Treatment, June 26, 2020.

<sup>7</sup> Motion of United Parcel Service, Inc. for Issuance of Information Request to the United States Postal Service, July 28, 2020. UPS's information requests were included in CHIR No. 2.

<sup>8</sup> United Parcel Service, Inc.'s Motion Requesting Access to Non-Public Materials Under Protective Conditions, July 28, 2020.

<sup>9</sup> Chairman's Information Request No. 2, August 3, 2020 (CHIR No. 2).

<sup>10</sup> Motion of United Parcel Service, Inc. for Extension to File Comments, August 6, 2020.

materials and extending comment deadline.<sup>11</sup> Also on August 6, 2020, Chairman's Information Request No. 3 was issued.<sup>12</sup> On August 10, 2020, the Postal Service filed its responses to CHIR No. 2.<sup>13</sup> The Postal Service filed a non-public library reference with its Response to CHIR No. 2.<sup>14</sup> On August 13, 2020, the Postal Service filed a revised Response to CHIR No. 2, question 7.<sup>15</sup> On August 14, 2020, the Postal Service filed its responses to CHIR No. 3.<sup>16</sup>

The Commission received comments from UPS<sup>17</sup> and the Public Representative<sup>18</sup> on September 1, 2020. With its comments, UPS filed supporting materials in a public and non-public library reference.<sup>19</sup> In response to the UPS Comments, the Postal Service filed a statement on September 4, 2020.<sup>20</sup>

### III. BACKGROUND

The current IOCS methodology uses multi-stage probability sampling to randomly select craft employees, including city carriers; then randomly selects an interval of work time from the employee's tour to represent a "snapshot" of the work

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<sup>11</sup> Order Granting Motion for Access to Non-Public Materials and Extending Comment Deadline, August 6, 2020 (Order No. 5621).

<sup>12</sup> Chairman's Information Request No. 3, August 6, 2020 (CHIR No. 3).

<sup>13</sup> Responses of the United States Postal Service to Questions 1-10 of Chairman's Information Request No. 2, August 10, 2020 (Response to CHIR No. 2).

<sup>14</sup> Notice of Filing of USPS-RM2020-10-NP3 and Application for Nonpublic Treatment, August 10, 2020.

<sup>15</sup> Revised Response of the United States Postal Service to Question 7 of Chairman's Information Request No. 2 – Errata, August 13, 2020 (Revised Response to CHIR No. 2, question 7).

<sup>16</sup> Responses of the United States Postal Service to Questions 1-11 of Chairman's Information Request No. 3, August 14, 2020 (Response to CHIR No. 3).

<sup>17</sup> Comments of United Parcel Service, Inc. on Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Three), September 1, 2020 (UPS Comments).

<sup>18</sup> Public Representative Comments, September 1, 2020 (PR Comments).

<sup>19</sup> Notice of Filing of Library References UPS-LR-RM2020-10/1 and UPS-LR-RM2020-10/NP1, and Application for Nonpublic Treatment, September 1, 2020.

<sup>20</sup> Statement of the United States Postal Service Regarding Proposal Three Comments of United Parcel Service, Inc., September 4, 2020 (Postal Service Statement).

activities in a sampled interval.<sup>21</sup> The Proposal Three methodology uses available detailed clock ring data from the Time and Attendance Collection System (TACS), which allows for a change in the current sampling methodology to a cluster sampling approach. Petition, Proposal Three at 1. Under the current methodology, most city carrier readings are conducted by telephone. *Id.* The Postal Service explains that Proposal Three is similar in some respects to Proposal Two in Docket No. RM2018-5 that was partially approved. *Id.* at 2. Proposal Three differs from Proposal Two in order to address concerns that were raised in Order No. 4972.<sup>22</sup>

#### IV. SUMMARY OF PROPOSAL THREE

##### A. Methodology<sup>23</sup>

*Objective.* The Postal Service seeks to change the IOCS methodology for sampling city carriers. Petition, Proposal Three at 1. The Postal Service states that “[t]he primary objective of the proposal is to replace telephone readings with on-site readings, particularly while carriers are on the premises and handling mail.” *Id.* at 10. The Postal Service explains that the TACS data are available to enable a new cluster sampling approach that will allow data collectors to take on-site readings while city

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<sup>21</sup> Petition, Proposal Three at 1. The current IOCS is a three-stage probability sample of employee work time, stratified by employee craft and by office size (Cost Ascertainment Group (CAG)). See Docket No. ACR2019, Library Reference USPS-FY19-37, December 27, 2019, PDF file “USPS-FY19-37.IOCS.Preface.pdf,” at 3.

<sup>22</sup> *Id.* In Proposal Three, the Postal Service states that “CAG is now used to define separate sampling strata for onsite morning tests, as well as used for post-stratification of afternoon telephone tests[;]” “testing is now expanded to be completed by finance number rather than delivery zone, ensuring that all employees working during a given period of time are eligible for testing.” *Id.* at 2.

<sup>23</sup> The Postal Service provides more statistical documentation (than is detailed in the body of this Order) in its “Appendix A: In-Office Cost System: Cluster (IOCS-Cluster) Statistical Documentation” (Appendix A) and procedures detail in its “IOCS-Cluster Procedures” filed with the Petition. See Library Reference USPS-RM2020-10-1, PDF file “Fldr.1.Prop.3.Preface.pdf;” USPS-RM2020-10-1, folder “Public.Fldr.1.Prop.3.IOCS.Clstr,” folder “Public,” folder “Documents,” PDF files “AppendixA.pdf;” and “iocsc-clusterprocedures\_final\_oct2019.pdf.”

carriers are on the premises and handling mail.<sup>24</sup> The Postal Service contends that “[t]he new design improves data quality by obtaining far more data [in the morning period] from on-site rather than telephone readings, while simultaneously improving data collection efficiency.” *Id.* at 1.

Under the Proposal Three methodology, changes are made to both the weekday<sup>25</sup> sampling of city carriers and the weekday cost/sample weighting for city carriers and city carriers acting as supervisors.<sup>26</sup> Petition, Proposal Three at 9. Proposal Three does not change the current IOCS activity or mail-related questions answered by the data collectors at the time of the readings.<sup>27</sup> The proposed sampling methodology utilizes probability proportional to size sampling, based on the accrued TACS workhours for carriers from two pay periods out of the prior quarter.<sup>28</sup> Petition, Proposal Three at 6. The TACS workhours are grouped by CAG, finance number, district and time of day depending on the sampling mode. *Id.* Samples are drawn on a

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<sup>24</sup> *Id.* at 1. The Postal Service states that under the current IOCS sample design, “[s]imple random sampling forces the sampling to be spread out and random, which limits the Postal Service’s ability to have a data collector on site, with the potential of a sampled employee not even being scheduled to work that day or being on leave. Using TACS will allow focused sampling at all CAGs, and weight the results according to their accrued hours and costs.” *Id.* at 13.

<sup>25</sup> “Weekday” excludes Sundays and holidays, as the IOCS does not sample city carriers or city carriers acting as supervisors on Sundays and holidays. See Docket No. RM2018-5, Order Approving in Part Proposal Two, January 8, 2019 (Order No. 4972); Docket No. RM2019-12, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), January 6, 2020 (Order No. 5395). For city carriers and city carriers acting as supervisors on Sundays and holidays, the current methodology uses TACS workhours to determine the share of costs and then distributes these costs to products using the Product Tracking and Reporting data as the distribution key. Order No. 5395 at 5.

<sup>26</sup> See IOCS-Cluster city carrier cost/sample weighting (uses TACS workhours) in Library Reference USPS-RM2020-10-1, folder “Public.Fldr.1.Prop.3.IOCS.Clstr,” folder “Public,” folder “Documents,” PDF file “AppendixA.pdf” at 3, 6 and IOCS-Non-Cluster cost/sample weighting in Docket No. ACR2019, Library Reference USPS-FY19-37, PDF file “USPS-FY19-37.IOCS.Preface.pdf” at 5-6.

<sup>27</sup> *Id.* The Postal Service states that “[o]nly administrative fields and back-end weighting variables will be affected by the proposed sampling methodology.” *Id.*

<sup>28</sup> The Postal Service states that “TACS workhours are based on clock rings, which are generally recorded by electronic time clocks, but also include any edits to clock rings made before the pay period is closed. They do not include workhours entered by paper time cards.” Response to CHIR No. 1, question 4.a. In the first half of fiscal year 2020, the Postal Service reports that overall, there were 963,940 (0.5 percent) fewer TACS workhours than total workhours (electronic clock ring workhours plus paper time card workhours). See Response to CHIR No. 1, question 4.b.; Excel file “Prop.3.CHIR 1.Responses.xlsx.”

quarterly basis. *Id.* The Postal Service proposes to estimate costs using TACS data to weight the IOCS-Cluster sample readings. *Id.* at 8.

*City carrier morning period sampling methodology (Sampling Mode 1: Morning On-site Tests).* For the morning period (before 11 a.m., Sampling Mode 1), when carriers are typically working on the premises of post offices or other carrier facilities, individual office finance numbers (within grouped CAG strata) are sampled and on-site data are collected on the city carriers working in those offices. *Id.* at 6. Data collectors conduct on-site readings on the cluster of carriers clocked to the selected finance number on the selected day. *Id.* at 4. All city carriers working in the selected finance number are identified and the data collection software randomly samples up to six carriers.<sup>29</sup> Data collectors conduct readings every 5 or 10 minutes depending on the CAG of the office finance number.<sup>30</sup> Readings begin when city carriers start their workday and continue until 11 a.m. Petition, Proposal Three at 5. City carrier readings are conducted when the city carrier is in the office building, in the parking lot, or on the loading dock. *Id.* Each finance number has its own sampling weight based on the accrued TACS hours for that specific finance number. *Id.* at 6. Finance numbers are grouped by CAG and each CAG group has a specific number of samples drawn. *Id.* Quarterly accrued TACS hours by finance number are used to scale morning tests for each tested finance number. *Id.* at 8. Pursuant to Order No. 4399, separate cost controls are developed for letter routes and special purpose routes using TACS workhours by Labor Distribution Code, together with accrued labor costs, by craft group (full time and other-part-time/transitional) and CAG. *Id.*

*City carrier afternoon period sampling methodology (Sampling Mode 2: Afternoon Telephone Tests).* For the afternoon period (between 11 a.m. and 7 p.m.),

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<sup>29</sup> If an office has fewer than six city carriers working on the test day, all carriers are sampled in random order. *Id.* at 5, n.6.

<sup>30</sup> CAG A, B and C office finance numbers are usually in larger buildings and conducting a reading every 5 minutes is not possible. *Id.* at 5, n.7. At offices in CAGs A-C, readings are scheduled every 10 minutes. Response to CHIR No. 2, question 4.d., n.4.

sampling mode 2), when carriers are typically working on the street, the sample design uses clustered telephone tests that are scheduled for one-hour blocks of time. *Id.* at 5. The data collection software randomly selects 30 carriers from the IOCS panel offices across a district, and then groups these 30 carriers by finance numbers. *Id.* There are two groups of telephone tests, larger offices (in CAGs A, B and C are combined) and smaller offices (in CAGs D, E, F, G, H, J, K, and L are combined). *Id.* n.9. Mode 2 is sampled at the district level by CAG grouping. *Id.* at 7. Each district has its own sampling weight based on the accrued TACS hours for the entire district within the CAG group. *Id.* For afternoon tests, quarterly hours are aggregated by district and CAG group to scale each test. *Id.* at 8. Cost controls for afternoon tests are created using the same methodology as the morning tests. *Id.*

*City carriers clocking as supervisors.* For the carriers who are acting as supervisors, the Postal Service proposes using the same methodology approved in Order No. 5395 to create a weekday cost control total. *Id.* at 9. Separate cost controls will be established for the large CAG group (CAGs A-C) and small CAG Group (D-L) for both the morning and afternoon and “will be allocated proportionally to the readings within each established bucket.” *Id.*

*Special Purpose Route (SPR) Costs.* Proposal Three continues to sample SPR carriers, but does not use the readings to attribute any costs.<sup>31</sup> Petition, Proposal Three at 9. The Postal Service notes that “current Proposal Three continues to sample SPR carriers...from the sampling pool to further increase the sampling efficiency of IOCS-Cluster...” *Id.* However, it may not do so in the future “to [even] further increase the sampling efficiency of IOCS-Cluster, if a reliable method to do so can be identified.” *Id.*

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<sup>31</sup> See Docket No. RM2019-6, Order on Analytical Principles Used in Periodic Reporting (Proposal One), January 14, 2020 (Order No. 5405). Order No. 5405 approved terminating the use of IOCS tallies to distribute city carrier SPR office time costs to products and approved the use of the City Carrier Cost System SPR delivered and collected volumes distribution keys to be used instead (for city carrier SPR office costs accrued on weekdays, excluding Sundays and holidays). See Docket No. RM2019-6, report supporting Proposal One provided by Professor Michael D. Bradley, Department of Economics, the George Washington University, “A New Study of Special Purpose Route Carrier Costs,” June 21, 2019, at 82-83.

## B. Impact

Under the Proposal Three methodology, overall attributable costs increase by \$241.2 million, primarily due to an increase in attributable total Domestic Competitive Mail and Services costs of \$222.0 million.<sup>32</sup>

As detailed in Table 1, other large impacts include a decrease in total First-Class Mail attributable cost of \$175.7 million (primarily due to a \$125.2 million decrease in First-Class Mail Single-Piece Letters attributable cost) and increases in total USPS Marketing Mail and Periodicals attributable costs of \$86.3 million and \$60.4 million, respectively.<sup>33</sup> Total Package Services attributable cost increase by \$23.2 million and total International Mail and Services attributable cost increase by \$12.4 million. Petition, Proposal Three at 15.

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<sup>32</sup> This impact includes both office and street costs as well as piggyback costs. *Id.* at 15.

<sup>33</sup> *Id.* The Postal Service explains that “[p]art of the reason for the decrease in First-Class Mail readings and the increase in Marketing Mail and Periodicals may be because data collectors are not as restricted in their time availability as carrier supervisors.” Response to CHIR No. 3, question 10. In a previous IOCS-Cluster city carrier docket, the Postal Service attributed a number of product cost changes as “most likely due to the use of on-site data collectors in lieu of telephone respondents.” See Docket No. RM2018-5, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), May 25, 2018, at 15.



**Table 1**  
**Cost & Revenue Analysis (CRA) Public Impact - Quarters 1 & 2, FY 2020**

CLASS, SUBCLASS OR SPECIAL SERVICE	CRA Class	\$(000) TOTAL OFFICE AND STREET, CURRENT	\$(000) TOTAL OFFICE AND STREET, PROPOSED	TOTAL OFFICE & STREET, CURRENT + PIGGYBACKS	TOTAL OFFICE & STREET, PROPOSED + PIGGYBACKS	PROPOSED MINUS CURRENT	CHANGE IN UNIT COST
<b>MARKET DOMINANT</b>							
<b>First-Class Mail</b>							
Single-Piece Letters	3	584,571	492,817	797,471	672,300	(125,171)	\$ (0.015)
Single-Piece Cards	4	24,639	20,458	33,468	27,789	(5,679)	\$ (0.022)
Presort Letters	8	559,279	524,535	761,130	713,845	(47,284)	\$ (0.003)
Presort Cards	9	17,838	21,341	24,581	29,408	4,827	\$ 0.004
Flats		106,963	105,154	142,624	140,212	(2,412)	\$ (0.004)
<b>Total First-Class Mail</b>	80	1,293,290	1,164,304	1,759,273	1,583,554	(175,720)	\$ (0.006)
<b>USPS Marketing Mail</b>							
High Density and Saturation Letters	21	109,508	114,973	151,497	159,058	7,561	\$ 0.002
High Density and Saturation Flats/Parcels	22	282,002	303,291	389,795	419,223	29,427	\$ 0.005
Every Door Direct Mail-Retail	24	12,274	13,394	16,941	18,487	1,545	\$ 0.005
Carrier Route	23	278,944	319,905	375,378	430,500	55,122	\$ 0.017
Letters	25	680,839	707,041	929,881	965,668	35,787	\$ 0.002
Flats	26	259,871	230,751	344,928	306,277	(38,651)	\$ (0.021)
Parcels	27	6,174	2,849	8,277	3,820	(4,457)	\$ (0.215)
<b>Total USPS Marketing Mail</b>	81	1,629,613	1,692,205	2,216,698	2,303,031	86,333	\$ 0.002
<b>Periodicals</b>							
In County	31	13,891	18,935	18,905	25,769	6,864	\$ 0.028
Outside County	32	150,516	190,453	201,834	255,386	53,553	\$ 0.028
<b>Total Periodicals</b>	82	164,407	209,388	220,739	281,156	60,417	\$ 0.028
<b>Package Services</b>							
Bound Printed Matter Flats	42	13,687	18,988	18,318	25,414	7,096	\$ 0.058
Bound Printed Matter Parcels	43	32,739	42,159	45,006	57,956	12,950	\$ 0.100
Media/Library Mail	44	11,916	14,221	16,360	19,525	3,165	\$ 0.074
<b>Total Package Services</b>	83	58,341	75,368	79,684	102,895	23,210	\$ 0.079
<b>US Postal Service</b>	85	18,471	22,653	24,644	30,223	5,579	\$ 0.037
<b>Free Mail</b>	86	2,979	3,151	4,017	4,248	231	\$ 0.015
<b>Total Domestic Market Dominant Mail</b>	90	3,167,102	3,167,070	4,305,056	4,305,107	51	
<b>Ancillary Services</b>							
Certified Mail	51	54,143	62,076	74,894	85,867	10,973	\$ 0.115
COD	52	150	175	204	238	34	\$ 0.206
Insurance	54	199	323	278	452	174	\$ 0.021
Registered Mail	55	349	360	482	497	15	\$ 0.026
Stamped Envelopes	56	-	-				
Stamped Cards	57	-	-				
Other Domestic Ancillary Services	58	38,026	34,781	52,944	48,426	(4,518)	
<b>Special Services</b>		-	-				
Money Orders	73	-	-				
Post Office Box Service	74	-	-				
<b>Total Domestic Market Dominant Services</b>	91	92,868	97,715	128,803	135,480	6,678	
<b>Total Domestic Market Dominant Mail &amp; Services</b>	92	3,259,970	3,264,785	4,433,858	4,440,587	6,729	
<b>Total Domestic Competitive Mail &amp; Services</b>	192	838,323	999,683	1,153,463	1,375,482	222,018	\$ 0.076
<b>Total International Mail &amp; Services</b>	185	57,434	66,509	78,632	91,056	12,425	

<b>Total Volume Variable &amp; Product Specific</b>	198	4,155,726	4,330,977	5,665,953	5,907,125	241,172	
<b>Other</b>	199	4,455,276	4,280,025				
<b>Grand Total</b>	200	8,611,002	8,611,002				

Source: Petition, Proposal Three at 15.

The Proposal Three methodology to account for city carriers acting as supervisors in customer service offices results in an increase of \$21.9 million for city delivery carrier supervision cost and a decrease of \$10.4 million for the supervision of clerks and/or mailhandlers (and at least one of the following: city delivery carriers and rural carriers) costs.<sup>34</sup>

## V. COMMENTS

The Commission received comments from UPS and the Public Representative. Both view the Proposal Three methodology as an improvement over the current methodology and recommend approval. In response to the UPS Comments, the Postal Service filed a Statement.

*PR Comments.* The Public Representative finds that Proposal Three is an improvement over the current methodology and supports its approval. PR Comments at 2. The Public Representative agrees that on-site data collections are preferable to phone interviews, since on-site data collectors (for the morning tests) can scan barcodes, and because “data collectors are better trained to recognize mail markings or other product-identifying characteristics.” *Id.* at 3. She lists other advantages of Proposal Three, such as “the elimination of costs allocated to unidentified routes, the

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<sup>34</sup> See Library Reference USPS-RM2020-10-1, folder “Public.Fldr.1.Prop.3.IOCS.Clstr,” folder “Public,” folder “Workbooks,” Excel file “SupervisorImpact.xlsx,” tab “Final Impact.” Codes used in the Excel file “SupervisorImpact.xlsx,” include: (“Func4”) costs are for customer service offices. Docket No. ACR2019, Library Reference USPS-FY19-37, Excel file “IOCSDataDictionaryFY19.xlsx,” tab “Mainframe Layout,” (F1 variable); IOCS activity codes “7420” (city delivery carrier supervision) and “7637” (supervision of clerks and/or mailhandlers and at least one of the following: city delivery carriers and rural carriers); Docket No. ACR2019, Library Reference USPS-FY19-37, file “MASTER.CODES.”

oversampling of small CAGs, and the certainty that sampled employees are available for testing.” *Id.*

The Public Representative notes that some of the coefficients of variation (CVs) under the Proposal Three methodology are higher than the current methodology. *Id.* However, she finds that none of the Proposal Three CVs “are particularly worrisome” and “agrees with the Postal Service that the efficiency gains outweigh the slight increase in CVs.” *Id.*

*UPS Comments.* UPS states that Proposal Three is an improvement over the current methodology and supports its adoption because it notes that it will improve costing efficiency and accuracy, and produces more reliable results. UPS Comments at 1-2, 5. UPS contends that “[t]here are significant reasons to be concerned that the current sampling approach [is not efficient] and increases the risk of inaccuracies.” *Id.* at 2. It states that “[a]pproximately 42% of city carrier readings are scheduled at times when the employee is unavailable...” and “[t]his inefficiency means that the current process for obtaining the information needed to reliably attribute costs is more costly and disruptive of normal operations than optimal or necessary.” *Id.* at 3. Further, it contends that “[t]he current IOCS system also contains features that increase the risk of inaccuracies,” such as allowing “respondents to avoid sampling pieces that might delay a carrier” and “respondents’ focus on their primary responsibilities might make it harder to accurately collect and track a sampled mail carrier.” *Id.* at 3-4 (footnote omitted). It notes that Proposal Three’s sampling methodology “results in a significant increase in the percentage of direct tallies where the carrier is handling a mailpiece (where the information can be collected more efficiently).” *Id.* at 4 (footnote omitted).

UPS notes that “the consistency of the results between Proposal Three and the IOCS-Cluster Proposal in RM2018-5 attests to the superiority of Proposal Three over the current methodology.” *Id.* at 7. It states that Proposal Three has a significant impact, and the resulting changes, “indicate that current methods understate the costs of Competitive Products.” *Id.* at 9-10. It points to the cluster sampling methodology as producing “more reliable results that indicate a better, more accurate approach” and an

“increase in the number of readings that produce a direct mail tally” as evidence that “a trained, dedicated [on-site for morning readings] data collector without other competing responsibilities will do a better job implementing IOCS data collection procedures, recognizing mail markings, and sampling pieces regardless of potential delay to a carrier” than the current IOCS sampling process. *Id.* at 5.

UPS states that “[t]he greater statistical reliability of the new methodology, on average, is another key factor that weighs in favor of Proposal Three.” *Id.* at 8 (footnote omitted). UPS notes that the “vast majority of CVs are lower under the cluster [sampling] methodology than under the non-cluster methodology” indicating an increase in precision under the Proposal Three methodology. *Id.* In a few instances where the CVs have increased under the Proposal Three methodology, it notes that these “generally do not involve large pools of cost.” *Id.* The exception is for street time cost. *Id.* However, it states that the city carrier street time cost CV is “very low in absolute terms—under 0.5%.” *Id.* (footnote omitted).

Although UPS supports the adoption of Proposal Three, it also advances several refinements that it contends are “straightforward” to account for temporal variations in labor costs per hour and mail mix. *Id.* at 10-12. It describes the proposed modifications as “incremental and should not delay the approval of Proposal Three, but will minimize the risk of inaccuracies in the IOCS methodology.” *Id.* at 2.

To account for differences in city carrier hourly wages, UPS suggests that the Postal Service refine the proposal “by developing a weighting scheme that accounts for differences in hourly wage costs, not just those associated with average wage differentials between full-time and part-time carriers.” *Id.* at 11. Specifically, “the methodology should be adjusted to account for variations in overtime costs, which vary markedly throughout the year.” *Id.* It proposes that the “Postal Service can adjust its weighted hours using an overall ratio of overtime hours to total hours within the

month.”<sup>35</sup> UPS states that “[i]t is not necessary to know the exact overtime status of the individual sampled employees, as the Postal Service has expressed concern about previously.” *Id.* (citing its Response to CHIR No. 3, questions 4 and 6). Similarly, “for other major differences in hourly wage costs (*e.g.*, salary differences among full-time carriers, Sunday premium wages, etc.),” it proposes further refinement to account for these factors to the extent that reliable proxies exist. UPS Comments at 13.

UPS observes that the current and proposed methodology weights the mail mix on a quarterly basis. *Id.* However, it contends that “variation in the mail mix within each quarter (*i.e.*, across months) creates the potential for bias in the costing results.” *Id.* UPS explains that “[t]he possibility of bias arises because the mail mix can and does change drastically even within each quarter, and in particular the quarter spanning October, November and December.” *Id.* (footnote omitted). It explains that “[i]f, within a [fiscal year] quarter, the timing of the collection of data differs from the timing of the costs being incurred, this raises the potential for costing inaccuracies.” *Id.* (footnote omitted).

To account for variations in the monthly mail mix, UPS proposes adopting monthly control totals rather than quarterly ones. *Id.* at 14. However, it acknowledges that “[a]dopting monthly control totals would have only modest impacts if applied to the six months analyzed and presented in this docket. However, as the within-quarter patterns in the mail mix and the timing of data collection evolve in future years, the use of monthly control totals would provide a safeguard against inaccuracies....” *Id.* n.36.

*Postal Service Statement in response to UPS Comments.*<sup>36</sup> The Postal Service states that “while the refinements that UPS has advanced may seem relatively straightforward in the abstract, suffice to say that attempts to actually implement those

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<sup>35</sup> *Id.* at 12 (footnote omitted). It suggests that if the TACS detail data are available by craft, CAG, and route group, the calculation performed at this level would add precision.

<sup>36</sup> The Postal Service states that the scheduling Orders made no provision for reply comments and “[w]ithout seeking leave to file reply comments, the Postal Service has no vehicle by which to express its views on the merits of the modifications to Proposal Three that UPS has suggested.” Postal Service Statement at 2.

suggestions would give rise to a host of issues, upon none of which the Postal Service has yet had the opportunity to focus much attention.” *Id.* at 2. It notes that “any attempt to engage on the merits of those proposed modifications now would almost certainly preclude implementation of Proposal Three as part of the FY 2020 ACR.” *Id.*

The Postal Service explained that it filed its Statement because it “does not want to run the risk that its silence in response to the suggested modifications to Proposal Three might be viewed as any type of implicit acquiescence to their immediate adoption as part of this proceeding.” *Id.* The Postal Service explains that it filed its Statement “to clarify that such a view would not reflect its actual position under these circumstances.” *Id.* at 3.

## VI. COMMISSION ANALYSIS

### A. Proposal Three

The Commission finds that the Postal Service’s Petition, supporting materials, and CHIR responses provides compelling evidence to conclude that on-site data collectors are an improvement over telephone respondents (the predominant mode of data collection for city carriers under the current IOCS methodology).<sup>37</sup> On-site data collectors are better able to obtain a mail sample, collect more detailed information, and more likely to better locate and identify the activity of city carriers who may not be

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<sup>37</sup> The Postal Service has explained that the predominant mode of data collection is by telephone in the current IOCS for city carriers because offices or “units are more geographically dispersed than mail processing plants” and “it is necessary to use telephone readings for much of the IOCS city carrier data collection.” See Docket No. R2006-1, Direct Testimony of A. Thomas Bozzo on Behalf of the United States Postal Service, USPS-T-46, May 3, 2006, at 12-13. Under the IOCS-Cluster methodology, fewer city carrier offices are sampled. However, the Postal Service states that the reductions in the number of offices and city carriers sampled under the Proposal Three methodology are not the cause of the cost impact changes for First-Class mail, USPS Marketing Mail and Periodicals. See Response to CHIR No. 3, question 11.

observable and/or near a telephone respondent.<sup>38</sup> As a result, the Commission finds Proposal Three improves the overall accuracy of the city carrier cost estimates.

The Postal Service states that “[t]here are numerous reasons” why it views the cost estimates developed under the Proposal Three methodology to be more accurate than the corresponding cost estimates for city carriers developed under the current methodology. Petition, Proposal Three at 10. It cites two primary reasons for the increased accuracy: (1) a dedicated on-site data collector; and (2) increased mailpiece sampling. *Id.* at 11.

The Commission agrees with the Postal Service and commenters that dedicated statistical program data collectors on-site may be better able to find carriers who are not at their case or cannot be located immediately and to identify mail markings or other product-identifying characteristics that are less common or more obscure. *Id.* at 10. The Postal Service states that “[d]ata collectors have enough time to obtain, sample and return a mailpiece to a carrier, whereas a respondent may not be able to do so...” *Id.*

In additional support of the validity of the results, the Postal Service states that, “in general, the distribution factors from IOCS-Cluster tend to be more similar to onsite [readings under the current methodology] compared to telephone readings.” Response to CHIR No. 3, question 10.

The Commission agrees with the Postal Service, given the increase in the city carrier direct mail tallies,<sup>39</sup> and the reduction in many of the in-office cost estimate CVs,<sup>40</sup> that the accuracy and precision of many of the city carrier in-office cost estimates developed under the Proposal Three methodology increased. The Commission also

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<sup>38</sup> The Postal Service states that “[t]he IOCS software and sampling procedures allow respondents to avoid sampling a specific mailpiece if they are unable to obtain a piece or if they perceive that doing so will delay the carrier.” Petition, Proposal Three at 11.

<sup>39</sup> “Direct” tallies are tallies for which a mail category has been identified by the IOCS data collector. Docket No. R2006-1, Library Reference USPS-LR-L-55, May 3, 2006, folder “LR-L-55 electronic version (.doc & .excel), folder “lr-l-55 part2,” Word file “R2006 lr-l-55\_pt2.doc,” at 11-2.

<sup>40</sup> See Library Reference USPS-RM2020-10-1, folder “Public.Fldr.1.Prop.3.IOCS.Clstr,” folder “Public,” folder “Workbooks,” Excel file “IOCS-Cluster PRC CV Summary FY20Q2YTD Public Ttl.xlsx.”

agrees that other estimated cost impacts do not appear to be due to the reduction in the number and type of offices or city carriers sampled.<sup>41</sup>

Under the Proposal Three methodology, when carriers were in the office, the Postal Service found that direct mailpiece costs increased 44 percent, and when the carriers were in the parking lot, direct mailpiece costs increased 223 percent. Petition, Proposal Three at 11. Additionally, “ambiguous mixed mail” and “ambiguous route costs” decreased, *i.e.*, for mixed mail, city carrier in-the-office costs decreased by 24 percent and in-the-parking-lot costs decreased by 9 percent and “Route 99” costs decreased by 74 percent. *Id.* at 11-12.

Despite some increases in estimated CVs under the Proposal Three methodology,<sup>42</sup> it significantly improves the overall quality, accuracy, and completeness of the Postal Service’s city carrier cost estimates. For these reasons, the Commission approves Proposal Three.

#### B. UPS’s Proposed Modifications

*UPS proposed modification to account for wage differences.* UPS states that “the IOCS data collection effort should aim to correctly measure the costs (as opposed to only labor hours) associated with products” by “developing a weighting scheme that accounts for differences in hourly wage costs, not just those associated with average wage differentials between full-time and part-time carriers.” UPS Comments at 10-11.

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<sup>41</sup> See Response to CHIR No. 3, questions 9 and 11.

<sup>42</sup> See Petition, Proposal Three at 17. The Postal Service states that the city carrier street time cost CV increased under the Proposal Three methodology “due to the decrease in afternoon sampling.” *Id.* at 16. Despite the very small (0.08%) increase in the CV estimated for the city carrier street time cost, the estimated cost value appears to be more valid under Proposal Three. The Postal Service states that the current methodology slightly overestimates city carrier street time cost because “[i]n some cases, telephone respondents inaccurately believe carriers are on the street, when they are in fact still in the parking lot or in an area of the facility that is not easily visible to the respondent.” Response to CHIR No. 2, question 9. The Proposal Three methodology estimates city carrier street time costs to be about \$158.4 million lower than the current methodology. Petition, Proposal Three at 11; Library Reference USPS-RM2020-10-1, folder “Public.Fldr.1.Prop.3.IOCS.Clstr,” folder “Public,” folder “Workbooks,” Excel file “IOCS-Cluster PRC CV Summary FY20Q2YTD Public Ttl.xlsx.”



UPS notes that city carrier “[o]vertime costs in December 2019 were \$340 million, ranging from 61% to 84% greater than in the other five months analyzed under Proposal Three.” *Id.* at 11 (footnote omitted).

The Postal Service Statement acknowledges that “the reliability of pay differences has not been thoroughly investigated,” and that it is not easy to “reliably assign overtime pay differences based solely on the pay status at the time of the [sample] reading.” Response to CHIR No. 3, question 4. Given the reduction in the number of different carriers sampled under the Proposal Three methodology, the Commission shares the Postal Service’s concern about the “reliability” of pay differences based on the pay status at the time of the sample reading.<sup>43</sup>

The Postal Service states that it has not had the opportunity “to focus much attention” on the UPS suggestions. Postal Service Statement at 2. The Commission agrees with both the Postal Service and UPS that in this proceeding, UPS’s proposed enhancements should not delay the approval of Proposal Three. However, the Commission directs the Postal Service to explore the potential for adjustments to more accurately reflect overtime pay differences and report the findings of that effort to the Commission within 60 days of the issuance of this Order.

*UPS proposed modification for monthly control totals.* The Commission could not assess UPS’s proposed modification for monthly control totals to account for varying mail mix nor its conclusion that “[a]dopting monthly control totals would have only modest impacts....”<sup>44</sup> UPS Comments at 14, n.36.

The Postal Service’s Statistical Documentation states simply that “[a] list of possible delivery days (Monday through Saturdays, excluding holidays) is randomized

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<sup>43</sup> It would seem feasible that accounting or adjusting for IOCS costs for overtime and other premium city carrier wage costs may be possible by month, district or postal areas (rather than the pay status at the time of the sample reading), and reasonable if the impact would materially change the city carrier cost estimates.

<sup>44</sup> The Commission reviewed UPS’s workpapers in Library References UPS-RM2020-10/1 and UPS-RM2020-10/NP1. However, it is not clear or explicit, how UPS finds (or measures “modest impacts”) that “[a]dopting monthly control totals would have only modest impacts....” UPS Comments at 14, n.36.

and systematically assigned to selected finance numbers to determine the day on which the test will be conducted.” Appendix A at 3. To increase the Postal Service’s transparency, the Commission directs the Postal Service to include more information (and explain its rationale and sampling methodology) for determining the number of city carrier tests on each delivery day for the weeks within each fiscal quarter in its next ACR filing. In its ACR documentation, it should also include its rationale for developing quarterly rather than monthly control totals.

## VII. CONCLUSION

Based upon a review of the Postal Service’s filings, supporting workpapers, responses to CHIRs, and comments, the Commission approves Proposal Three. Pursuant to 39 C.F.R § 3050.42, the Commission finds that the proposed analytical methodology significantly improves the quality, accuracy, and completeness of the Postal Service’s city carrier cost estimates.

As explained above, Proposal Three increases the overall quality of the city carrier in-office cost estimates by obtaining more direct mail tallies, reduces ambiguous in-office mixed mail costs, increases the precision of many in-office city carrier cost estimates and more accurately estimates overall city carrier street time for letter routes. For these reasons, the Commission finds that Proposal Three represents an improvement over the existing methodology and satisfies 39 C.F.R § 3050.42.

## VIII. ORDERING PARAGRAPH

*It is ordered:*

1. For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Three are approved.

2. The Postal Service shall file a response within 60 days presenting its findings on the potential for adjusting for overtime costs differences and whether adjusting or accounting for these differences would further materially improve the accuracy of city carrier cost estimates.
3. In its next Annual Compliance Report filing, the Postal Service shall include an explanation of its rationale for developing quarterly rather than monthly control totals, and include more information (and explain its rationale and sampling methodology) for determining the number of city carrier tests on each delivery day for the weeks within each fiscal quarter.

By the Commission.

Mallory Smith  
Federal Register Liaison